The New York Times
DealBook
Edited by Andrew Ross Sorkin

February 18, 2011, 2:01 am

Illinois Pension Bonds to Test Investors' Faith

By DEALBOOK

The first time Illinois tried to bail out its teetering pension fund by borrowing billions of dollars, it ended in disaster.

Nevertheless, the state is trying again, Mary Williams Walsh and Michael Cooper report in The New York Times.

Illinois hopes to sell $3.7 billion of bonds to make this year's contribution to its fund. It is essentially paying a single year's bill by adding to its already heavy debt load. That short-term thinking is not unlike Americans taking out home equity loans to pay for cars and vacations before the housing bust.

But investors have learned a lot about the pitfalls of debt since the state tried to shore up its fund a few years ago. This time the municipal bond markets are jittery, and federal securities regulators are investigating whether Illinois has been properly describing its pension fund and the risks it may pose.

Amid the heightened oversight, Illinois is providing more information about its troubled finances than in the past. So much unfavorable detail is emerging that the bond issue will test investor faith in a deeply troubled state's commitment to do whatever is necessary, raise taxes or cut services, to keep its promises to bondholders.

Illinois has a team of banks, actuaries, lawyers and financial advisers helping it get the latest pension bonds to market. The lead underwriters are Morgan Stanley, Goldman Sachs and Loop Capital Markets; 11 other underwriters will sell smaller portions. A local firm, Peralta Garcia Solutions, is advising the state, and three law firms are helping make sure the bonds are issued legally.